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TAGS: ECON EMIN EINV BL  
SUBJECT: BOLIVIA: MORE BAD NEWS FOR MINING

REF: 07 LA PAZ 3187

Classified By: EcoPol Chief Mike Hammer for reasons 1.4 b,d

¶1. (SBU) Summary: On May 6, Emboff met with Humberto Rada, president of Bolivia's Medium Miners Association (an organization of private mining companies that includes local affiliates of U.S. companies Coeur D'Alene, Apex Silver, and Newmont). Although Morales' May 1 decrees did not include nationalization of mining (a step still rumored and feared in mining circles), Rada provided a pessimistic overview of the current mining situation in Bolivia. "Not content with killing mining, the government has started to mutilate the corpse," Rada said. End summary.

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Taxes Taxing  
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¶2. (SBU) Medium Miners Association President Humberto Rada emphasized that Bolivia's current tax regime after the 12.5 percent increase of late 2007 places Bolivia among the most expensive countries to mine worldwide and "the most expensive in the Americas." Rada also pointed out that President Morales' March 2008 decree which eliminated accelerated, double depreciation for mining exploration expenses directly goes against the government's rhetoric about attracting new investment to Bolivia. "Ironically, the same week that President Morales was eliminating this investment incentive, President Bachelet was implementing a similar incentive in Chile. Where will companies want to invest?" he asked rhetorically.

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Mining Rights Wronged  
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¶3. (SBU) Rada also mentioned pending new restrictions on mining rights. According to a May 10, 2006 decision by the (now paralyzed) Constitutional Tribunal, it is

unconstitutional for mining rights (concessions) to be sold, traded, inherited, or used as collateral for loans. The Tribunal's decision gave a period of two years for this decision to be enforced: the two years will be up either May 10 or June 2, 2008 (depending on whether the government decides to date implementation from the decision date or the publication date.)

¶4. (C) Comment: Among U.S. investments in Bolivia, Apex Silver is the most seriously affected by this change. Apex's loans are guaranteed by Apex's reserves and mining rights, something that would become illegal as soon as the Tribunal's decision was implemented. Since Apex has no other mines currently in production, it is unclear what they will use for collateral should the banks call for a new basis of guarantee. Newmont and Coeur are not seriously affected by this change. Newmont is nearing the end of mine life, and Coeur does not own concessions outright, instead contracting with local cooperative mining groups. End comment.

¶5. (SBU) Another anticipated change to mining rights is legislation now in the lower house of Congress that would cause mining rights to expire after a certain time idle. Mining concessions that have not been worked in five years would immediately revert to the state, and concessions that have been abandoned more recently would have a short grace period (in which work could be restarted) before reverting to the state. According to Rada, the main concern among mining companies will be the definition of "working" a concession. For example, most companies have mining rights to areas that they use for buffer zones, tailings dumps, or other support activities. Depending on how the legislation is worded, these areas could be at risk for reverting back to the state.

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Joint Ventures with the State: Nail in the Coffin  
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¶6. (C) Also feared in the next few months is pending legislation that would cancel all contracts with the state mining company COMIBOL and require that companies renegotiate. When the draft legislation was first leaked, the National Federation of Cooperative Miners (FENCOMIN) protested in a private letter to President Morales. A later draft of the legislation suggests that FENCOMIN was successful in their protest, since the second leaked draft specifically exempted cooperatives from the requirement to renegotiate with COMIBOL. Sources suggest, however, that FENCOMIN is still not pleased, this time taking exception to the draft legislation's requirement that all mineral production be sold to COMIBOL (for COMIBOL to then resell on the domestic or international market.)

¶7. (C) Lacking FENCOMIN's ability to protest in a way that the government hears (street blockades with dynamite), the Medium Mining Association is waiting worriedly to see if this legislation will pass. (Comment: It is not clear if Coeur would be affected by this potential new requirement since Coeur works through contracts with cooperative miners and cooperative miners are currently excluded from the draft legislation. End comment.) The ruling Movement Toward Socialism (MAS) draft constitution also includes a requirement for all mining companies to enter into joint ventures with COMIBOL, which would affect all three major U.S. mines, but so far there is no scheduled referendum on the draft constitution. End comment.

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Pessimistic Prognosis  
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¶8. (C) Rada thanked Emboff for past Embassy help on various mining issues, but responded negatively to an open offer of further assistance. "Thank you, and we'll keep you in mind, but right now you are the kiss of death," he said, before adding that mining in Bolivia was dying anyway. Bringing up stock quotes for Apex Silver (whose San Cristobal mine is Bolivia's biggest mining investment and Apex's primary

asset), Rada lamented that, taking inflation into account, Apex is trading for less than it was when it was merely a prospect and not a functioning mine. "Apex should be trading for four to six times what it is. But thanks to the taxes and the politics, it's not. Evo is killing mining." Rada mentioned that he has a meeting in the next week with Newmont management, who are determining whether to fund short-term projects at Rada's Inti Raymi mines so as to extend the mine life past 2011, when bioleaching processes would come online.

"I tell them that Evo is in his third year, he has to become more moderate, but they don't want to listen. They are worried about their payback. They have two million ounces of gold reserves in Inti Raymi (including bioleach recovery of gold in the tailings) which is more than they have anywhere else in the world," but according to Rada, Newmont's management is uneasy about the political situation. "It's probably a 60 percent chance that they will pull out, try to sell. But who will buy? After Entel (the recent nationalization of the Italian telecom company,) who wants to invest in Bolivia?"

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